

Riley's

DATASHARE
INTERNATIONAL LTD.



*annual
report
may
1976*

BOARD OF DIRECTORS:

(As of October 27, 1976)

JERRY F. D'ARCY	President, Can-Tex Drilling & Exploration Ltd.
ARVIL D. MINOR	Chairman of the Board and President Riley's DataShare International Ltd.
ROBERT SADLER	Vice President and Secretary-Treasurer Riley's Datashare International Ltd.
TERRY SPARKS	President, Riley's Reproductions & Printing Ltd.
H. NORMAN STEWART	President HNS Consultants Ltd.

OFFICERS:

ARVIL D. MINOR	Chairman of the Board and President
W. TOM SHORT	Executive Vice President
ROBERT SADLER	Vice President and Secretary-Treasurer
NICHOLAS J. SAKIRES	Vice President Well Log Divisions
WM. THANE MINOR	Vice President, International Marketing
BRIAN CAMPBELL	Vice President Science & Technology
MELVIN C.J. WOLSTONCROFT	Assistant Treasurer

TO THE SHAREHOLDERS:

Our year ended May 31, 1976 marked our twenty-sixth year of service to the oil industry and the arrival of a world-wide, substantial market for digitized oil well log products and services. This market exceeds our current production capabilities and presents a challenge and the opportunity we have been seeking for the past fifteen years.

Sales for the year increased 22%, totalling \$2,452,000, compared with sales of \$2,004,000 for the preceding year (after eliminating sales of \$3,317,600 generated by the reproduction business). Earnings from operations increased 714% to \$113,600, compared with \$15,900 last year. Net earnings for the year were \$203,100 (15.6¢ per share) including \$89,500 (6.9¢ per share) of extraordinary income, which is the recovery of income taxes arising on application of prior year's deductions for income tax purposes. Last year's net earnings of \$290,500 (22.3¢ per share) included \$274,600 (21.1¢ per share) of extraordinary items, which consisted primarily of the gain on the sale of the Company's property at 9th Avenue.

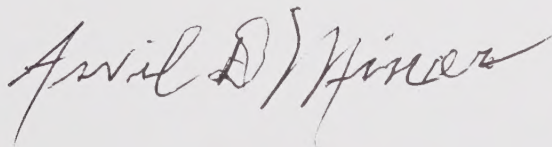
In February, 1976 the Company paid its seventeenth dividend (the first dividend paid since becoming a public company in 1968).

In line with our announced intention to divest the Company of its real estate holdings, we currently have several bona fide prospects who have made tentative or actual proposals to purchase our 8th Avenue properties, our last remaining properties. Any approved sale will add significantly to our strong cash position.

We are currently installing a "twin" computer data processing facility in Houston, Texas. This will substantially increase our production capabilities to serve the growing world-wide market.

We wish to express our appreciation to our employees for their continued diligent and co-operative efforts and to the continuing support and confidence shown by our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "Arvil D. Minor". The signature is fluid and cursive, with the first name "Arvil" and last name "Minor" clearly distinguishable.

Arvil D. Minor
President

DIGITAL DIVISION

The Calgary division recently installed a DEC-20 computer system which is rapidly becoming capable of improving our production requirements to fit the increasing needs and demands of the oil industry. A "twin" system is being installed in Houston, Texas in the fall of 1976, and is scheduled to become operational in January, 1977.

EXPLORATION DATA EXCHANGE

The storage facility of this division is becoming profitable in our new fiscal year. The seismic brokerage business continues to be highly competitive.

HALF-SCALE LOG LIBRARY

Increased drilling activities in Canada during the past year have helped return this division to its normal growth pattern, and the outlook for the continuance of this trend is good.

PETRO-WELL LIBRARIES

Combined use by the oil industry of microfilm oil well logs with both half-scale print library and the developing digital log library continues. We have instituted a study which is still in progress, to assess the need for a library of well logs on microfiche.

REAL ESTATE DIVISION

This division will disappear after the sale of our 8th Avenue properties mentioned earlier in the President's report.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Riley's DataShare International Ltd. and Subsidiaries as of May 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as of May 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Reat, Marwick, Mitchell & Co.

Calgary, Alberta
September 24, 1976

Chartered Accountants

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
 May 31, 1976
 (with comparative figures for 1975)

ASSETS

	<u>1976</u>	<u>1975</u>
Current assets:		
Cash, including deposit receipts	\$ 787,500	308,400
Accounts receivable:		
Trade	341,900	928,500
Other	83,900	81,300
Inventory of materials — at lower of cost or net realizable value	106,300	367,900
Current portion of contracts receivable	16,800	—
Prepaid expense and deposits	49,800	88,900
	<u>1,386,200</u>	<u>1,775,000</u>
Long-term notes receivable	643,100	—
Less current portion above	16,800	—
	<u>626,300</u>	<u>—</u>
Property, plant and equipment — at cost (Notes 3 and 6)	1,657,900	2,946,400
Less accumulated depreciation	788,700	1,374,300
	<u>869,200</u>	<u>1,572,100</u>
Research and development expenses — net (Note 4)	840,100	842,200
Less digital log research contributions (Note 5)	840,100	842,200
	<u>—</u>	<u>—</u>
Other assets:		
Goodwill — at cost less amounts amortized (Note 8)	615,900	571,500
Investments and other — at cost less amounts written off	39,900	46,400
Deferred charges (Note 2)	94,200	—
	<u>750,000</u>	<u>617,900</u>
	<u>—</u>	<u>—</u>
	<u><u>\$3,631,700</u></u>	<u><u>3,965,000</u></u>

LIABILITIES

	<u>1976</u>	<u>1975</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 442,800	822,600
Current portion of long-term debt	100,000	115,500
Income taxes payable	<u>13,700</u>	<u>—</u>
Total current liabilities	<u>556,500</u>	<u>938,100</u>
Long-term debt (Notes 3 and 6)	185,000	300,500
Less current portion above	<u>100,000</u>	<u>115,500</u>
	<u>85,000</u>	<u>185,000</u>
Deferred income taxes	<u>16,900</u>	<u>—</u>
Shareholders' equity:		
Capital stock (Notes 6 and 7):		
Authorized 2,400,000 shares without nominal or par value		
Issued 1,303,242 shares	2,559,800	2,559,800
Contributed surplus	348,800	348,800
Retained earnings (deficit)	<u>64,700</u>	<u>(66,700)</u>
	<u>2,973,300</u>	<u>2,841,900</u>
Commitments and contingent liability (Note 8)		
Approved on behalf of the Board:		
<u>Arvid & Minor</u> , Director		
<u>R. J. Adl</u> , Director		
	<u>\$3,631,700</u>	<u>3,965,000</u>

See accompanying notes.

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

May 31, 1976

1. Accounting Policies:

(a) Principles of Consolidation:

(i) The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly-owned.

(ii) The excess of the purchase price of the shares of subsidiaries over their underlying net book values at dates of acquisition has, on consolidation, been included in "Goodwill" in the accompanying consolidated balance sheet and is being amortized over a forty year period.

(b) Depreciation and Amortization:

Depreciation on property, plant and equipment is provided on a declining balance method at rates which are estimated to amortize the costs of such assets over their productive lives.

(c) The companies follow the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

2. Deferred Charges:

The costs and expenses of new product development and pre-production are deferred and will be amortized commencing at the time of commercial sales or production. Unamortized costs related to products or projects abandoned are charged to expense at that time.

3. Property, Plant and Equipment:

<u>Description</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value May 31, 1976</u>
Land	\$ 145,500	—	145,500
Buildings and leasehold improvements	424,800	230,800	194,000
Furniture, fixtures, machinery and equipment	<u>1,087,600</u>	<u>557,900</u>	<u>529,700</u>
	<u>\$1,657,900</u>	<u>788,700</u>	<u>869,200</u>

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — Continued

May 31, 1976

4. Research and Development Expenses:

Research and development expenses represent the amount expended on the digital oilwell log program to May 31, 1970 net of accumulated amortization and writedown. Research and development expenses are carried in the accompanying balance sheet at an amount equal to the Company's Digital Log Research Contributions as discussed in Note 5.

5. Digital Log Research Contributions:

Research contributions consist of the following:

Government of Canada	\$347,000
Other participants	<u>493,100</u>
	<u>\$840,100</u>

The Government of Canada has advanced to the Company, under the Program for Advancement of Industrial Technology, certain funds which are repayable only if the results of the research project are put to commercial use. The repayment agreement provides for repayment of the contributions together with interest at 5¾%, at a rate based on 4% of certain sales resulting from the project. Pursuant to the agreement, interest of \$215,400, the repayment of which is contingent on sales, has accrued to May 31, 1976 and has not been reflected in the accompanying accounts.

Contributions totaling \$347,400 made by other participants are repayable in the form of discounts on digitized log purchases until such time as the oilwell log digital division attains a reasonable profit and cash flow (which has not yet occurred) as stated in the agreements with the participants; at such time the participants shall have the right to recover balances then owing to them on the basis of one-fifth of the balance per year over a five-year period, less discounts allowed on purchases during each year. Contributions totaling \$145,700 are repayable on a discount basis only.

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — Continued

May 31, 1976

6. Long-term Debt:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Convertible debenture, with interest at 1% above bank prime rate, due January 15, 1977	\$100,000	\$100,000	\$ —
8% chattel mortgage due June 1, 1977	55,000	—	55,000
Note payable with interest at 1% above bank prime rate, due June 1, 1977	<u>30,000</u>	<u>—</u>	<u>30,000</u>
	<u>\$185,000</u>	<u>\$100,000</u>	<u>\$85,000</u>

Convertible debenture:

The debenture is secured by a first fixed and specific mortgage and charge on certain lands and premises of the Company, together with all buildings, structures, improvements and fixtures upon the said lands and premises.

The debenture is convertible, in multiples of \$50,000 principal amount thereof, into shares without nominal or par value of the capital stock of the Company at \$7 per share if conversion takes place on or before January 15, 1977. The repayment terms call for the final principal repayment of \$100,000 on January 15, 1977.

7. Stock Options:

The Company has reserved 50,000 Treasury shares for an employees stock option plan. During the year, options for 13,000 shares were cancelled as a result of termination of employment, and the option term for 5,000 shares expired.

As at May 31, 1976, there were options in connection with 22,000 shares outstanding pursuant to the plan, details of which are as follows:

<u>Number of Shares</u>	<u>Price per Share</u>	<u>Exercisable to</u>
12,000 (Officers)	\$1.3775 to \$2.180	June 19, 1979
<u>10,000 (Employees)</u>	<u>\$1.52 to \$2.1375</u>	<u>April 8, 1979</u>
<u>22,000</u>		

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — Continued

May 31, 1976

8. Commitments and Contingent Liability:

The Company and its subsidiaries have, in the ordinary course of business, entered into various property leases with rentals of approximately \$182,600 per year.

Subsequent to May 31, 1976 the Company had contracted to lease certain equipment for terms ranging between 5 and 7 years at an annual aggregate rental of \$141,700.

Pursuant to an agreement whereby the Company acquired all of the business and certain assets of another company, the Company is required to pay additional amounts in the event that the cumulative net earnings of the acquired business during the five years ended May 31, 1977 are greater than a stipulated amount. In this regard the sum of \$184,600 has been paid or is payable for the four year period ending May 31, 1976 and has been included in the accompanying financial statements under the caption "Goodwill". The Company may become liable to pay an additional \$60,000 for the year ending May 31, 1977.

9. Amounts Paid to Directors and Senior Officers:

Aggregate direct remuneration paid or payable in 1976 by the Company and its subsidiaries to the Company's directors and officers amounted to \$1,400 and \$220,600 respectively.

10. Effective June 1, 1975, the Company disposed of its commercial reproduction and supply business, together with their related assets. The following table sets forth the assets disposed of and the consideration received on the transactions.

Assets disposed of:

Accounts receivable	\$ 475,600
Inventories	205,800
Prepaid expenses	18,600
Property, plant and equipment, net of accumulated depreciation	<u>706,600</u>
	<u>\$1,406,600</u>

RILEY'S DATASHARE INTERNATIONAL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — Continued

May 31, 1976

10. Continued:

Consideration received:

Cash	\$ 629,400
Accounts payable assumed by purchaser	171,300
Long-term note receivable with interest at 1% above prime rate repayable in annual installments from September 1, 1976 to September 1, 1985	<u>605,900</u>
	<u>\$1,406,600</u>

The operating revenues and expenses in connection with the discontinued business are shown in the following table. This amount is included in the accompanying consolidated statement of earnings and deficit for the year ended May 31, 1975.

Sales	<u>\$3,317,600</u>
Cost of goods sold and expenses exclusive of items shown below:	3,221,500
Depreciation	94,000
Interest on long-term debt	<u>2,500</u>
	<u>3,318,000</u>
Loss before income taxes	<u>\$ 400</u>

CORPORATE INFORMATION

EXECUTIVE OFFICE	409 - 8th AVENUE S.W. Calgary, Alberta T2P 1E3
BRANCHES	Calgary — 522 - 528 - 9th Avenue S.W. Houston — 2525, Murworth
PRINCIPAL SUBSIDIARY	W.J. Dick & Co. Ltd.
REGISTRAR AND TRANSFER AGENT	National Trust Company
STOCK EXCHANGE LISTING	Toronto Stock Exchange
AUDITORS	Peat, Marwick, Mitchell & Co. Calgary, Alberta
LEGAL COUNSEL	Jones, Black & Company — Calgary Fulbright & Jaworski — Houston
BANKERS	Royal Bank of Canada — Calgary Canadian Imperial Bank of Commerce — Calgary Texas Commerce Bank — Houston

